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India

Cotton and Products

Voluntary Update

2008

Approved by:
Holly Higgins
U.S. Embassy

Prepared by:
Santosh K. Singh

Report Highlights:
The Post MY 2008/09 (August/July) cotton production forecast is lowered to 24.0 million bales due to lower planted area. Consumption is lowered to 18.5 million bales and exports are lowered to 6.3 million bales due to relatively tight domestic supplies. Imports have been raised to 800,000 bales as the recent removal of the import duty on cotton will encourage imports of cotton by southern cotton mills. MY 2007/08 exports have been raised to a record 7.2 million bales.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Quarterly Report
New Delhi [IN1]
[IN]

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SECTION I – SITUATION AND OUTLOOK

Table 1: Commodity, Cotton (480 lb bales), PSD

Cotton India	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Aug 2006			Market Year Begin: Aug 2007			Market Year Begin: Aug 2008		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Area Planted	0	9142	9142	0	9530	9550	0	9650	9100
Area Harvested	9,166.0	9,142.0	9,142.0	9,530.0	9,530.0	9,550.0	9,350.0	9,650.0	9,100.0
Beginning Stocks	8064	8064	8064	7664	7664	7664	8014	8563	7454
Production	21800	21800	21800	25300	24986	25000	25500	25376	24000
Imports	465	465	465	450	390	390	500	390	800
MY Imports from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	30329	30329	30329	33414	33040	33054	34014	34329	32254
Exports	4565	4565	4565	7000	6250	7200	7200	7027	6250
Use	18100	18100	18100	18400	18230	18400	18800	17568	17200
Loss	0	0	0	0	0	0	0	1406	1300
Total Dom. Cons.	18100	18100	18100	18400	18230	18400	18800	18974	18500
Ending Stocks	7664	7664	7664	8014	8561	7454	8014	8328	7504
Total Distribution	30329	30329	30329	33414	33041	33054	34014	34329	32254
Stock to Use %	34	30	34	32	33	29	31		32
Yield	518.0	519.0	519.0	578.0	571.0	570.0	594.0	573.0	574.0

Note: Production figures in the table include 937,000 bales of loose cotton.

MY 2008/09 Production Forecast Revised Lower

The Post MY 2008/09 cotton production forecast is lowered to 24.0 million bales (5.2 million tons) due to lower than initially expected cotton planting. Cotton planting is complete in north India wherein area has declined by over 17 percent compared to last year. Cotton planting was delayed in most parts of central and southern India due to insufficient monsoon rains during most of July. Provisional planting estimates from various state agriculture departments indicate total cotton sowing till July 24 at 6.97 million hectares, down 12 percent from last year (see table 3). Due to the resurgence in monsoon rains since the last week of July, cotton planting has resumed and progressing well. With strong end-season cotton prices expected to encourage farmers to opt for cotton in the late sown areas, MY 2008/09 planting is expected to be 9.1 million hectares. Despite delayed planting, yield prospects remain favorable due to a higher share of approved Bt cotton seeds and absence of any major pests and diseases. However, weather during August/September will be crucial in determining the final crop size. Current industry production estimates for the upcoming crop range from 23.0 to 24.6 million bales (29.5 to 31.5 million Indian bales of 170 kg).

Most cotton growing areas received adequate and well-distributed monsoon rains in June establishing excellent planting conditions for the crop. Planting in northern India (Punjab/Haryana/Rajasthan) was delayed by 1-2 weeks due to delayed harvesting of wheat, but was completed by the first week of June. However, farmers shifted some area out of cotton to paddy, guar gum and coarse cereals due to strong cereal prices, delayed harvest of last season's wheat crop, and fear of a higher incidence of the mealy bug that had caused damage to the cotton crop in some pockets last year.

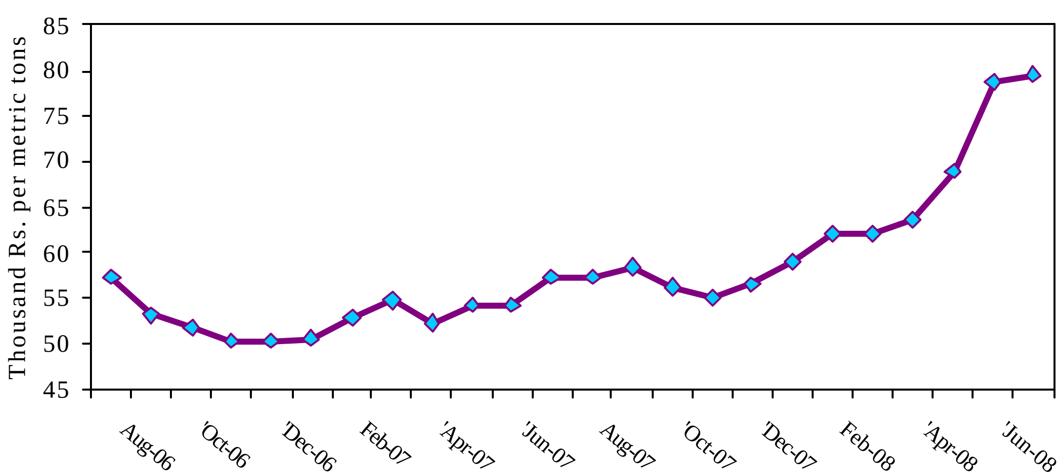
Due to insufficient monsoon rains during most of July, cotton planting in the central and southern states faltered. Market sources report that planting of most competing crops of cotton in the region have also been delayed due to adverse weather. Most of the cotton growing areas in central and southern states have received good rains for the last 10 days. Consequently, planting has resumed and is expected to be over by the second week of August in central states (Gujarat/Maharashtra/M.P.) and by the end of August in most southern states (Andhra Pradesh/Karnataka/Tamil Nadu)[1]. Market sources report that the strong end-season cotton prices will encourage farmers to grow cotton vis-à-vis competing crops in the ongoing late season planting. Initial reports indicate that cotton area may be around last year's level in most central and southern states except Gujarat where farmers have already shifted some cotton area to peanuts.

The crop is progressing well under adequate moisture conditions in most cotton growing areas. Market sources report a significant increase in area under approved Bt cotton compared to last year in most states (see IN8049). The Bt cotton hybrids are mostly replacing lower yielding 'unapproved' Bt hybrids and traditional cotton varieties. Although there are some reports of minor pest incidences (mealy bugs) in some pockets of north India and Gujarat, there are no reports of any major damage to the crop.

MY 2008/09 Season Ending Prices Strong

Buoyed by strong exports, domestic cotton prices have been on the rise since May. Current prices of most staple varieties range from 76 to 91 cents/lbs; about 23 to 33 percent higher than the April-end prices (see Table 4).

Fig 4: Shankar -6 Cotton Prices



Prices are expected to remain firm for the next couple of months as the crop is expected to be delayed by 2-3 weeks. However, international prices will largely guide domestic price movements during the season due to the expected strong export demand for Indian cotton and removal of the import duty on cotton.

[1] A small summer cotton crop in the south will be planted in November/December

MY 2008/09 Consumption Revised Marginally Lower

Post's MY 2008/09 forecast for domestic consumption is revised lower to 18.5 million bales on forecast relatively tight domestic supplies and firm cotton prices. Market sources also report stagnating domestic demand due to a slowdown of the economy and high price inflation.

MY 2007/08 Exports Revised Higher

Post's MY 2007/08 export estimate has been revised higher to 7.2 million bales based on the latest available official estimates and information from market sources. The latest available official monthly export figures show cotton exports during August 2007 through February 2008 at 4.86 million bales. Market sources estimate exports during March through July, 2008 at 2.34 million bales; taking MY 2007/08 exports to a record 7.2 million bales.

Import Duties on Cotton Removed; Exports to be Registered

The domestic textile industry has been protesting against rising domestic cotton prices due to strong exports, and had petitioned the government to remove the import duty and impose export controls. On July 8, 2008, the Government of India removed the import duty (14.7 percent) on cotton[2]. The government also decided to withdraw the 1 percent duty drawback incentive on cotton exports. Since Indian cotton prices are expected to be somewhat lower than foreign cotton due to sufficient supplies, the removal of import duty may not have a significant impact on imports. However, southern mills near the ports will import cotton when the local cotton prices are relatively higher and/or quality supplies are not available domestically as seen in the recent spurt in contracts for imports during August-September 2008.

On July 22, 2008, the Ministry of Commerce issued a notification[3] that imposes the condition that states "The contracts for exports of cotton shall be registered with the Textile Commissioner prior to shipment. Clearance of cotton consignments by customs should be done after verifying that the contracts have been registered."

The government issued the registration condition in order to monitor India's exports of cotton as well as the domestic cotton supply situation. Earlier, export statistics were made available to the government with a lag of 4-6 months after physical exports since the Directorate General of Commercial Intelligence takes some time in collecting, compiling and tabulating the custom statistics from each port. While the new condition does not impose any quantitative restrictions on exports of cotton, the process of registering the export contract with the Textile Commissioner may be considered an irritant by exporters.

MY 2008/09 Trade Estimates Revised

Post has revised MY 2008/09 exports lower to 6.3 million bales and imports higher to 800,000 bales on relatively tight domestic supplies and removal of the import duty.

Despite increasing acceptability of Indian Shankar-6 cotton in destination countries like China, tight domestic supplies and consequent firm prices will constrain export prospects. The recent policy moves by the government have also dampened the export prospects due to rumors of export controls like establishing quotas, etc. Consequently, the local cotton trade is bearish on export prospects, with export estimates ranging from 4.3 to 5.9 million bales.

[2] http://www.cbec.gov.in/customs/cs-act/notifications/notfns-2k8/cs84-2k8.htm
[3] No 26(RE-2008)/2004-09 http://164.100.9.245/exim/2000/not/not08/not2608.htm)

After the removal of the import duty on cotton, market sources report that mills (mostly from south India) have contracted for importing about 390,000 to 470,000 bales due to strong local cotton prices and lack of availability of quality cotton. Most of the import contracts are for 29-32 mm cotton from Africa and CIS countries for delivery during August-October, 2008. In addition, India will import most of its extra long staple cotton (ELS) requirement (400,000 bales) due to the declining domestic ELS crop. Assuming Indian cotton remains competitive vis-à-vis foreign cotton due to sufficient domestic supplies, MY 2008/09 imports are expected to reach 800,000 bales.

SECTION II – STATISTICAL TABLES

Table 2: Area, Production & Yield of Cotton in Major States

(Area in 000 hectares, Production in 000 bales of 480 lb., Yield in Kg/Hectare)

				Final	Final	Final	Final	Revised	Forecast Rev
STATE		**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Maharashtra	Area	2980	2800	2766	2840	2889	3107	3191	3100
	Production	3425	2600	3100	5200	3600	5000	6200	6100
	Yield	195	158	191	311	212	274	330	335
Gujarat	Area	1687	1634	1647	1906	2077	2390	2516	2350
	Production	3250	3050	5000	7300	8900	10300	11500	10500
	Yield	328	317	516	651	728	733	777	760
Madhya Pradesh	Area	623	545	591	576	600	639	662	610
	Production	2000	1800	1965	1600	1800	1900	2100	1900
	Yield	546	561	565	472	510	505	539	530
Punjab	Area	600	449	452	509	557	607	641	560
	Production	925	750	1035	1650	2000	2400	2300	2300
	Yield	262	284	389	551	610	672	610	698
Haryana	Area	610	519	526	621	583	530	483	412
	Production	550	875	1150	1550	1300	1500	1650	1500
	Yield	153	287	372	424	379	481	581	619
Rajasthan	Area	347	386	344	438	472	350	368	258
	Production	700	500	915	1100	1100	900	900	700
	Yield	343	220	452	427	396	437	416	461
Andhra Pradesh	Area	1002	803	837	1178	1037	972	1096	1150
	Production	2675	1975	2740	3250	3200	3600	4650	4800
	Yield	454	418	557	469	525	630	721	710
Karnataka	Area	591	393	313	521	450	378	388	420
	Production	700	500	420	800	650	600	800	900
	Yield	201	216	228	261	246	270	351	364
Tamil Nadu	Area	200	85	103	129	136	100	130	160
	Production	500	300	375	550	550	500	500	600
	Yield	425	600	619	725	688	850	654	638
Others	Area	90	53	51	68	72	71	80	80
	Production	75	100	100	100	100	100	200	200
	Yield	142	321	333	250	236	239	425	425
Loose	Production	1000	1150	1100	1200	1200	1200	1220	1240
All-India	Area	8730	7667	7630	8786	8873	9144	9555	9100
	Production	15800	13600	17900	24300	24400	28000	32020	30740
	Yield	308	302	399	470	467	521	570	574

Table 3: Statewise Cotton Sowing Position as on July 24, 2008
(Area in 100,000 hectares)

State	Total Planting	Last Year Sowing
Maharashtra	22.50	26.19
Gujarat	19.57	21.00
Madhya Pradesh	6.12	6.30
Punjab	5.60	6.04
Haryana	4.18	4.83
Rajasthan	1.81	3.68
Andhra Pradesh	7.67	8.70
Karnataka	1.52	1.75
Tamil Nadu	0.10	0.06
Others	0.67	0.68
Total	69.74	79.23

Source: Directorate of Cotton Development, Ministry of Agriculture

Table 4: Month-end Prices of Popular Varieties
(Prices in Rupees per metric tons)

	ICS 101	*ICS 202*	*ICS 105 28mm*	*ICS 105 29mm*	*ICS 106 33mm*	*ICS 107*
Year	Bengal Deshi	SG J-34	H-4	Shankar-6	MCU-5	DCH-32
	(below 22 mm)	(25 mm)	(28 mm)	(29 mm)	(33 mm)	(35 mm)
2006/07						
Aug	*41620*	*48930*	*52020*	*57360*	*60180*	*111070*
Sep	*41900*	*45830*	*50050*	*53150*	*59610*	*108260*
Oct	*41340*	*44990*	*48930*	*51740*	*58490*	*97010*
Nov	*40770*	*43310*	*48090*	*50330*	*73110*	*90000*
Dec	*39930*	*43590*	*47800*	*50330*	*73110*	*90000*
Jan	*37680*	*43300*	*48650*	*50620*	*58490*	*90000*
Feb	*41060*	*48090*	*51740*	*52870*	*61300*	*92800*
Mar	*41060*	*51740*	*53430*	*54830*	*62430*	*92800*
Apr	*41340*	*50330*	*51740*	*52300*	*61860*	*89980*
May	*42180*	*52300*	*52300*	*54270*	*61860*	*89980*
June	*42180*	*52580*	*52870*	*54270*	*61860*	*88580*
July	*44990*	*54830*	*56240*	*57360*	*63270*	*91390*
Average	*41338*	*48318*	*51155*	*53286*	*62964*	*94323*
2007/08						
Aug	*43870*	*53150*	*55400*	*57360*	*63270*	*89980*
Sept	*43870*	*52020*	*56520*	*58490*	*63270*	*89980*
Oct	*42740*	*50050*	*53990*	*56240*	*63270*	*80140*
Nov	*47240*	*51740*	*52430*	*55120*	*58490*	*80140*
Dec	*47800*	*52870*	*54270*	*56520*	*59900*	*80140*
Jan	*47800*	*54550*	*56520*	*59050*	*61300*	*82670*
Feb	*47240*	*56800*	*59050*	*62140*	*63550*	*87170*
Mar	*53430*	*56800*	*59900*	*62140*	*68050*	*87170*
Apr	*54550*	*57930*	*61860*	*63550*	*68890*	*87170*
May	*65800*	*68610*	*66080*	*68890*	*73390*	*89980*
June	*69170*	*77610*	*78450*	*78740*	*81550*	*92800*
July	*70300*	*77050*	*78740*	*79580*	*84640*	*93640*
Average	*52818*	*59098*	*61101*	*63152*	*67464*	*86748*